



Ensuring families and communities across Idaho can thrive despite the current health and economic challenges must be the top priority of the state legislature as they make budget decisions in January 2021.

With over 100,000 Idahoans recently out of work and a partial rebound expected because of the continued dangers of the pandemic, Idaho's state revenues are expected to fall with the budget year that starts July 1 (FY 2021). To avoid layoffs of teachers, first responders, health workers, and others, state and federal policymakers should consider bold actions, such as tapping state reserves and working with Congress to develop a plan for federal aid.

Declines in Idahoans' Incomes

Economic activity has dropped dramatically. While the national gross domestic product, or GDP, grew by 2.1 percent in the fourth quarter of 2019, it shrank at an annualized rate of 4.8 percent in the first quarter of 2020.¹ In 2020, economists expect the national GDP to decline by 5.4 to 5.6 percent overall.² GDP will also be negatively impacted by rising unemployment. As a general estimate, every 1 percent increase in unemployment imposes a 2 percent decrease in GDP compared with projections.³

Idahoans who can afford to purchase the goods and services they need make the economy strong. But unemployment caused by COVID-19 will likely continue to hurt Idahoans' employment prospects, and a few industries will bear deeper losses. By the end of 2020, 9,700 Idaho retail jobs will be lost and the leisure and hospitality industry will lose 15,000 jobs, shrinking these industries to 2013 and 2015 sizes, respectively.⁴ Construction, which was booming in Idaho before COVID-19, will lose an estimated 5,700 jobs.⁵

These job losses will result in dramatic short-term declines in employee wages and salaries and business incomes. The state's budgeting agency, the Division of Financial Management (DFM), expects that Idahoans will see a 13.6 percent decline in their wages from April through June. In the same period, non-farm businesses may lose 57 percent in income.⁶ In the third quarter, farm businesses will see a precipitous decline in earnings that could reach 25.3 percent.⁷ DFM does not expect Idaho employment to fully rebound until 2022.⁸ State lawmakers must make funding choices now that protect our communities and get the economy moving.

Idaho Revenue Shortfall Projections

A rise in unemployment, plummeting income, and GDP contraction will hamper state revenue. DFM estimates a revenue gap of 8.6 to 14.4 percent between what was budgeted and projected collections.⁹ Moody's Analytics estimates are more severe, projecting Idaho's revenue will fall short by 20.3 percent in FY 2021, eliminating about \$757 million from state revenue.¹⁰ The Idaho reserve fund balances are projected to stand at \$596.4 million at the beginning of FY 2021 – after all transfers from FY 2020 are accounted for.¹¹

Idaho is not alone, as most states will face revenue shortfalls in FY 2021. Moody's projects at least 45 states will have revenue shortages in FY 2021; many states published their own revised revenue projections, most of which expect double-digit shortfalls.¹²

Policy Options

To protect key public services that support long-term economic growth, policymakers must address the state's revenue shortfalls. Cuts to state budgets slow GDP growth; from 2009-2012, cuts to state spending resulted in a 1.2 percent lowered rate of real GDP growth.¹³ Idaho is barred from using \$1.25 billion from the Coronavirus Relief Fund for revenue replacement, and other sources of pandemic-related federal aid are targeted to specific needs. However, two key revenue sources remain:

Tap State Reserves for Revenue Replacement

Idaho was prudent to build up balances during good economic times and should use some or all of these funds in FY 2021 to prevent cuts in public services and bolster the economy. Idaho currently limits reserve withdrawals to half of the balance; however, several factors may require lifting this restriction:

- Budget cuts reduce demand for goods and services, dampening sales, profits, and job growth. This is the opposite of what Idaho needs during a downturn. Using rainy day funds, in contrast, takes money from savings and puts it into the state's economy in a way that can maintain demand for goods and services.
- Using rainy day funds would allow Idaho to preserve things like smaller classroom sizes for social distancing and other services while lawmakers and state officials devise a more carefully considered solution to close potential budget gaps in FY 2022 and beyond. With time, Idaho could appropriately target budget reductions on the programs that could be cut with the least damage to the economy, such as programs with dedicated reserve funds or the ability to levy user fees.

Work with Federal Policymakers on Federal Aid

Federal policymakers could send additional federal aid to support Idaho's economy by preventing budget cuts and helping families and small businesses. Recent scholarship suggests that every dollar spent by the federal government on aid to states provides \$1.7 or more in economic activity.¹⁴ Moody's Analytics estimates that states will need a total of \$200 billion in federal relief to avoid slowdowns in economic growth due to revenue increases or budget cuts.¹⁵

¹ GDP measures the value of all finished goods and services made in the country during a defined period. Bureau of Economic Analysis, Department of the Treasury, "Gross Domestic Product, 1st Quarter 2020 (Advance Estimate)," April 29, 2020, Accessed at: <https://www.bea.gov/news/2020/gross-domestic-product-1st-quarter-2020-advance-estimate>

² Congressional Budget Office, "CBO's Current Projections of Output, Employment, and Interest Rates and a Preliminary Look at Federal Deficits for 2020 and 2021" April 24, 2020, Accessed at: <https://www.cbo.gov/publication/56335> and Division of Financial Management, "Idaho Economic Forecast," April 2020, Accessed at: https://dfm.idaho.gov/publications/eab/ief/ief_apr2020.pdf

³ Matthew Gordon, "Estimates of COVID-19's Effect on Utah's GDP Growth Rate Using Okun's Law," Accessed at: https://www.utahchildren.org/images/pdfs-doc/2020/Matthew_Gordon_paper_on_Okuns_Law.pdf

⁴ Division of Financial Management, "Idaho Economic Forecast," April 2020, Accessed at: https://dfm.idaho.gov/publications/eab/ief/ief_apr2020.pdf

⁵ Division of Financial Management, "Idaho Economic Forecast," April 2020, Accessed at: https://dfm.idaho.gov/publications/eab/ief/ief_apr2020.pdf

⁶ Division of Financial Management, "Idaho Economic Forecast," April 2020, Accessed at: https://dfm.idaho.gov/publications/eab/ief/ief_apr2020.pdf

⁷ Division of Financial Management, “Idaho Economic Forecast,” April 2020, Accessed at: https://dfm.idaho.gov/publications/eab/ief/ief_apr2020.pdf.

⁸ Division of Financial Management, “Idaho Economic Forecast,” April 2020, Accessed at: https://dfm.idaho.gov/publications/eab/ief/ief_apr2020.pdf

⁹ Division of Financial Management, “Memorandum: Update on Budget for FY 2020 through 2022,” May 13, 2022, Accessed at: <https://www.boisestate.edu/vpfa-budget-and-planning/files/2020/05/Update-on-Budget-for-FY-2020-through-FY-2022.pdf>.

¹⁰ Moody’s Analytics, “Stress Test States- COVID-19,” April 14, 2020, Accessed at: <https://www.economy.com/getlocal?q=37F6F320-EF2A-4806-9AAB-EADE66FA0317&app=download>. The shortfall estimates are based on a deep recession in the first half of 2020 followed by a modest rebound. Travel and business restrictions would be in effect through late second quarter, with a peak jobless rate of 13% in 2020, Q2.

¹¹ LSO Budget Update to Legislative Council, June 5, 2020.

¹² Moody’s Analytics, “Stress Test States- COVID-19,” April 14, 2020, Accessed at: <https://www.economy.com/getlocal?q=37F6F320-EF2A-4806-9AAB-EADE66FA0317&app=download> and Center on Budget and Policy Priorities, “States Grappling with Hits to Tax Collections,” April 2020, Accessed at: <https://www.cbpp.org/research/state-budget-and-tax/states-start-grappling-with-hit-to-tax-collections>.

¹³ Brookings Institution, “How will the Coronavirus affect State and Local Budgets?”, March 23, 2020, Accessed at: <https://www.brookings.edu/blog/up-front/2020/03/23/how-will-the-coronavirus-affect-state-and-local-government-budgets/>

¹⁴ Gabriel Chodorow-Reich, “Geographic Cross-Sectional Fiscal Spending Multipliers: What Have We Learned?” American Economic Journal: Economic Policy May 2019, Accessed at: https://scholar.harvard.edu/files/chodorow-reich/files/cross_sectional_multipliers.pdf.

¹⁵ Moody’s Analytics, “Stress Test States- COVID-19,” April 14, 2020, Accessed at: <https://www.economy.com/getlocal?q=37F6F320-EF2A-4806-9AAB-EADE66FA0317&app=download>